

MEMORANDUM

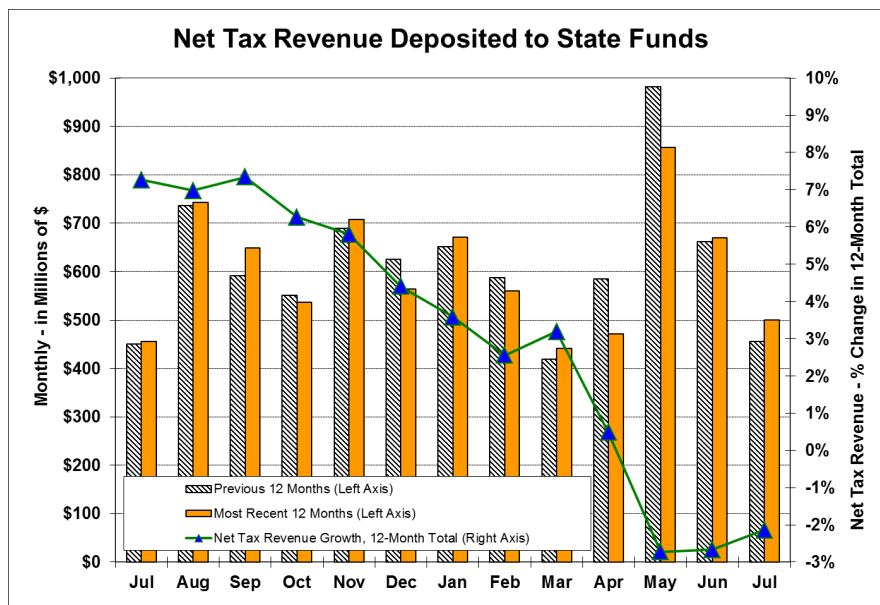
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson
Shawn Snyder

DATE: August 29, 2014

Twelve-month Total Net Tax Receipts Through July 31, 2014

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending July 2014 with comparisons to the previous 12 months. July 2013 to July 2014 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Overview of Current Situation

Annual State tax receipts, net of tax refunds, turned negative in May 2014 and growth is now negative 2.1%. Although much of the reversal can be traced to individual income tax changes at the State and federal level, banking, corporate, gambling, inheritance, and real estate transfer taxes are also negative over the most recent 12 months. Iowa's current nonfarm employment growth stands at 1.6% (12-month average) and has been improving in recent months indicating that the Iowa economy continues to expand.

Month of July 2014

July net tax receipts totaled \$499.5 million, an increase of \$44.3 million (9.7%) compared to July 2013. The positive growth for the month was largely the result of a one-time boost to net sales/use tax receipts caused by a change in the monthly withdrawal of school infrastructure sales tax. Beginning one year ago, the Department of Revenue began a transfer process that more closely aligns withdrawals with tax deposits and as a result a large July adjustment transfer is no longer necessary.

Additionally, in July 2013 a large corrective transfer moved sales tax receipts to corporate tax receipts, causing sales tax to be artificially low and corporate tax artificially high last July. This results in the opposite scenario when July 2014 is compared to July 2013 and explains the \$27.2 million corporate decrease this July. Franchise (banking) tax also decreased significantly in July, possibly the result of deposit timing differences.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending July 2014, net revenue from all taxes deposited to State funds totaled \$7.369 billion, a decrease of \$160.9 million (- 2.1%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (negative \$256.7 million, - 7.4%) – Annual individual income tax revenue growth peaked at \$451.4 million for the 12 months ending June 2013. Growth has declined steadily since that time. Due to an increase in the Iowa Earned Income Tax Credit, the new Taxpayer Trust Fund Tax Credit, and the FY 2013 one-time boost to revenue that was the result of federal tax changes enacted January 1, 2013, the annual rate of income tax revenue growth declined significantly, falling below 0.0% by May 2014.
- Sales/Use Tax (positive \$128.6 million, 5.3%) – For the forty-seventh consecutive month, the annual growth in sales/use tax deposits has been positive.
- Corporate Income Tax (negative \$27.5 million, - 6.4%) – Corporate income tax has been volatile in recent months and trending lower, but annual income remains modestly below its all-time high.
- Bank Tax (negative \$11.1 million, - 28.5%) – The use of income tax credits may explain the recent weakness in bank (franchise) tax receipts. Banks utilize income tax credits and often those credits are purchased from other taxpayers with insufficient tax liability to use the credits themselves.
- Fuel Tax (positive \$11.6 million, 2.6%) – According to Department of Revenue monthly fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 3.4%. Taxable diesel sales increased 5.5%. The annual total for all taxable fuel gallons sold in Iowa is currently 0.5% below the last peak (12 months ending July 2011).
- Gambling Tax (negative \$10.7 million, -3.6%) – According to Racing and Gaming Commission statistics, 16 of Iowa's 18 casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12 months ending July 2014. The combined AGR change for the 18 facilities was negative 3.5% over the previous 12 months. Across all facilities, the AGR for the most recent 12 months totaled \$1.388 billion. The annual AGR total has been declining and is 5.5% below the November 2012 peak.
- Real Estate Transfer Tax (negative \$0.4 million, - 2.1%)
- Cigarette and Tobacco Tax (positive \$3.5 million, 1.6%)

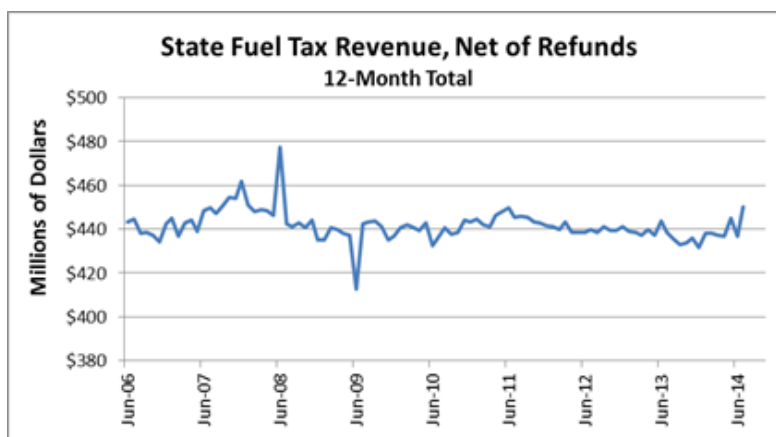
Tax Spotlight – Motor Vehicle Fuel Tax

Motor vehicle fuel is taxed under [Iowa Code chapter 452A](#). The tax is imposed on each gallon of fuel sold in Iowa for use in most motor vehicles and aircraft. Tax rates for July 1, 2014, through June 30, 2015, are:

- Gasoline - \$0.210 per gallon
- Ethanol Blended Gasoline - \$0.19 per gallon
- E-85 - \$0.19 per gallon
- Aviation Gasoline - \$0.08 per gallon
- Diesel Fuel - \$0.225 per gallon
- Liquefied Petroleum Gas (LPG) - \$0.20 per gallon
- Aviation Jet Fuel - \$0.03 per gallon
- Compressed Natural Gas - Taxed on a gasoline gallon equivalent basis designed to equal \$0.21 per gallon
- Liquefied Natural Gas - Taxed on a diesel gallon equivalent basis designed to equal \$0.225 per gallon

Tax rates for gasoline and ethanol-blended gasoline (including E-85) are subject to adjustment each fiscal year by the Department of Revenue and are based on the previous calendar year's ethanol-blended gasoline sales.

The Iowa motor fuel tax was imposed in 1925 in SF 312 (Gasoline License Fee Act) at a rate of \$0.02 per gallon. The tax rates for gasoline and diesel fuel have increased periodically since enactment. In 1989, the tax rate on diesel fuel was increased to its present rate of \$0.225 per gallon and the tax rate on gasoline was increased to \$0.20 per gallon. House File 716 (Ethanol-Blended Gasoline and Related Taxes Act of 2001) established a motor vehicle fuel tax schedule. The Department of Revenue establishes the per-gallon tax rate on gasoline and ethanol-blended gasoline based on the tax schedule. The market-share of ethanol-blended gasoline during a calendar year determines the tax rate on gasoline and ethanol-blended gasoline for the following fiscal year. The tax rate per gallon could range from \$0.19 to \$0.20 on ethanol-blended gasoline and \$0.20 to \$0.21 on gasoline. The use of the tax schedule was to end after FY 2007; however the General Assembly has extended the use of the tax schedule several times

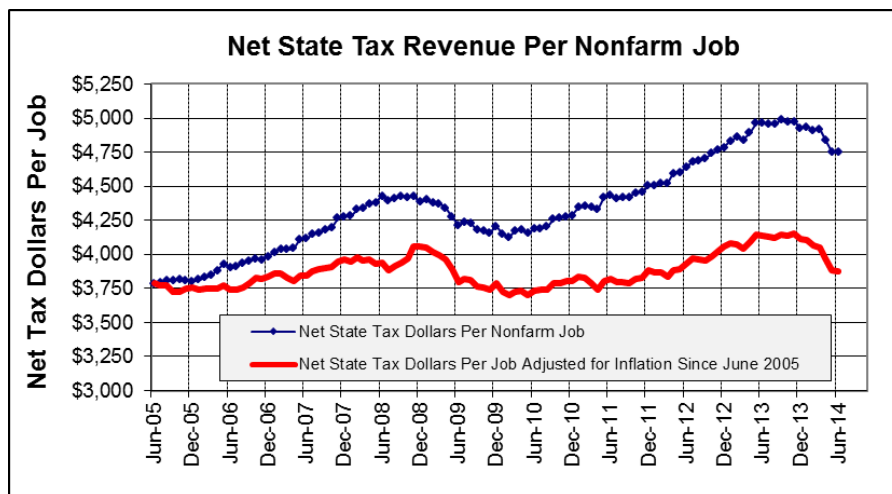


Motor vehicle fuel tax returns are filed by the licensee and are due by the last day of the month following the month when the fuel was withdrawn from its terminal. Aviation fuel tax receipts are credited to the State Aviation Fund ([Iowa Code chapter 452A.82](#)). Starting in FY 2008, tax

receipts from the sale of gasoline used in water craft are deposited in the Marine Fuel Tax Fund ([Iowa Code chapter 452A.84](#)). The remainder of the motor fuel tax revenue is credited to the Road Use Tax Fund

Tax Revenue and Employment

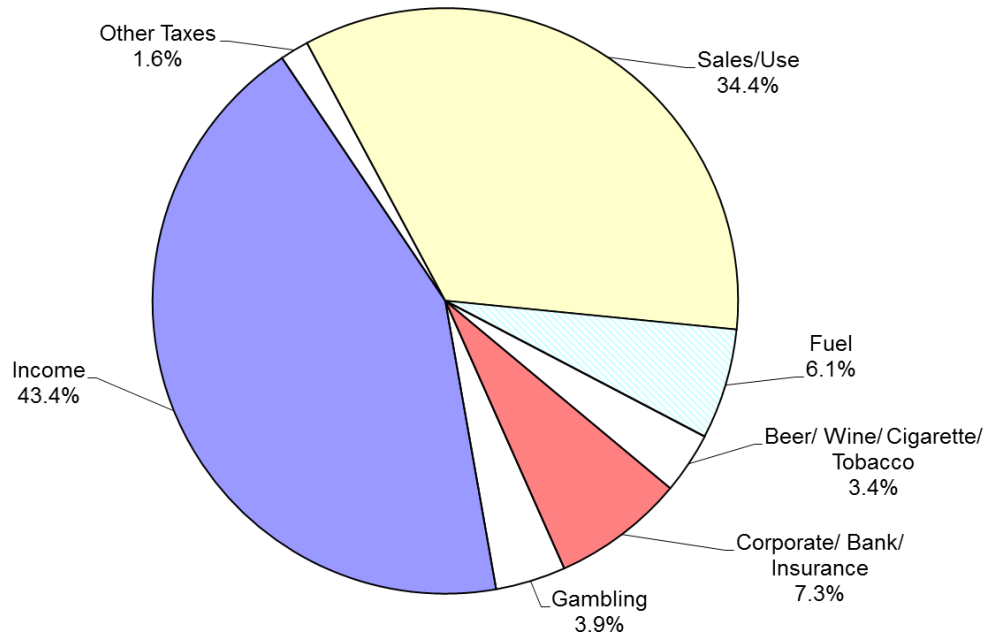
The average reading for Iowa nonfarm employment over the 12 months ending June 2014 is 1,541,400 and net State tax receipts over the same 12 months totaled \$7.325 billion, or \$4,752 per nonfarm job. This is \$967 higher than the per-job average for the 12 months ending June 2005. The blue line on the following chart depicts the annual tax revenue collected by the State per job, calculated monthly. The red line subtracts the impact of inflation since June 2005 from the blue line. The red line indicates that inflation adjusted tax revenue per job has increased \$93 since June 2005 and the remainder of the \$967 increase (\$874) represents the impact of inflation.



Net State Tax Revenue - Twelve Months Ending July 2014

Net Revenue = \$7.369 Billion

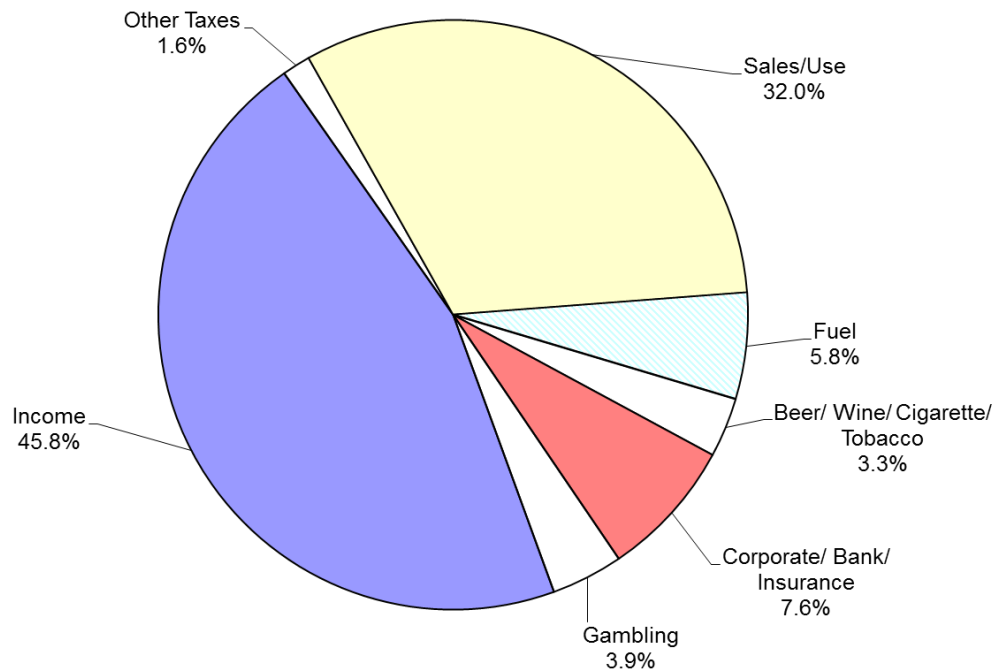
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending July 2013

Net Revenue = \$7.530 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of July 2013	Month of July 2014	July \$ Change	July % Change
Banking	\$ 39.0	\$ 27.9	\$ - 11.1	-28.5%	\$ 5.2	\$ 0.1	\$ - 5.1	-98.1%
Beer & Wine	21.8	21.9	0.1	0.5%	1.9	1.9	0.0	0.0%
Cigarette & Tobacco	223.9	227.4	3.5	1.6%	16.5	21.0	4.5	27.3%
Corporate Income	430.6	403.1	- 27.5	-6.4%	34.5	7.3	- 27.2	-78.8%
Fuel	438.5	450.1	11.6	2.6%	33.3	46.5	13.2	39.6%
Gambling	296.6	285.9	- 10.7	-3.6%	14.2	14.4	0.2	1.4%
Individual Income	3,451.8	3,195.1	- 256.7	-7.4%	220.6	224.4	3.8	1.7%
Inheritance	87.4	86.0	- 1.4	-1.6%	7.7	4.3	- 3.4	-44.2%
Insurance	104.5	105.9	1.4	1.3%	0.6	1.0	0.4	66.7%
Other Taxes	10.5	12.2	1.7	16.2%	0.1	0.0	- 0.1	-100.0%
Real Estate Transfer	19.1	18.7	- 0.4	-2.1%	1.8	1.8	0.0	0.0%
Sales/Use	2,406.4	2,535.0	128.6	5.3%	118.8	176.8	58.0	48.8%
Total Net Taxes	\$ 7,530.1	\$ 7,369.2	\$ - 160.9	-2.1%	\$ 455.2	\$ 499.5	\$ 44.3	9.7%
Gross Tax & Refunds								
Gross Tax	\$ 8,832.9	\$ 8,801.6	\$ - 31.3	-0.4%	\$ 559.1	\$ 564.4	\$ 5.3	0.9%
Tax Refunds	\$ - 1,302.7	\$ - 1,432.4	\$ - 129.7	10.0%	\$ - 104.0	\$ - 64.7	\$ 39.3	-37.8%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 6,385.2	\$ 6,040.8	\$ - 344.4	-5.4%	\$ 363.8	\$ 386.7	\$ 22.9	6.3%
Road Use Tax Fund	\$ 763.0	\$ 790.4	\$ 27.4	3.6%	\$ 61.3	\$ 77.0	\$ 15.7	25.6%
Non-GF Gambling	\$ 253.9	\$ 284.3	\$ 30.4	12.0%	\$ 14.0	\$ 14.2	\$ 0.2	1.4%
Other State Funds	\$ 128.2	\$ 253.6	\$ 125.4	97.8%	\$ 16.1	\$ 21.7	\$ 5.6	34.8%
Local Option Taxes *	\$ 890.0	\$ 870.3	\$ - 19.7	-2.2%	\$ 97.5	\$ 59.5	\$ - 38.0	-39.0%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

A percentage change displayed as "--" represents instances where the base year net revenue amount was zero or negative so no meaningful percentage change can be calculated.

Tax Categories Used in Table

Franchise (Bank) Tax: The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is included in this line also. Of the total deposited, the bank tax provides approximately 98.0% of the revenue and the credit union tax 2.0%.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in an Iowa Economic Development Authority fund for wine promotion.

Cigarette & Tobacco Tax: Prior to July 1, 2011, all cigarette and tobacco products tax revenue was deposited to the State General Fund. Beginning FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes is deposited to the Health Care Trust Fund and the remainder is deposited to the State General Fund. Beginning FY 2014, all cigarette and tobacco tax revenue is deposited to the Health Care Trust Fund.

Corporate Income Tax: All corporate income tax is deposited in the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited in several State funds. For FY 2013, \$40.0 million was deposited to the General Fund and the remainder to other State funds. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bond Debt and Subsidy Holdback Funds, the Technology Reinvestment Fund, and the Iowa Skilled Worker and Job Creation Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited in the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The distribution of State portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% by FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

Sales/Use Tax: General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database: The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.